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## REPORT OF THE OFFICE OF INTERNAL AUDIT FOR 2021

### Introduction

1. The Office of Internal Audit (OIA) provides this annual summary report for calendar year 2021. The report gives an overview of OIA's work in that year and the office's perspective on internal controls, risk management, and related matters in the Pan American Health Organization (PAHO).
2. OIA's mission is to assist management in protecting and enhancing risk management and internal controls in the Pan American Sanitary Bureau (PASB), thereby facilitating the achievement of the Organization's objectives. OIA provides an independent view on whether risk management processes and related internal controls are adequately designed and functioning effectively. The office's work covers all operational and institutional functions in PASB, including information technology systems.
3. OIA undertakes internal audits and, occasionally, consulting assignments. It also provides ad hoc advice on emerging risks to the Director of PASB and to management. The office participates as an observer in PASB internal committees and working groups. These include: *a)* the Asset Protection and Loss Prevention Committee; *b)* the Enterprise Risk Management and Compliance Standing Committee; *c)* the Integrity and Conflict Management Standing Committee; and *d)* the Property Survey Board. Through these activities, OIA provides timely, forward-looking advice to PASB and encourages knowledge sharing and the identification of emerging risks.

### Independence, Resources, and the Three “Lines” of Assurance

4. To guide the internal audit activity and to assist in maintaining its independent character, OIA follows the International Professional Practices Framework of the Institute of Internal Auditors (IIA).<sup>1</sup> The IIA identifies three “lines” of assurance with respect to risk management and risk-mitigating internal controls. The first and second lines are the responsibility of management: the first line relates to the operation of day-to-day internal controls, and the second line consists of managerial monitoring and compliance testing.

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<sup>1</sup> Available at <https://www.theiia.org/en/standards/>.

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The third line is the independent assurance provided by internal audit. In other words, the first line refers to managerial functions that own risks; the second line to managerial functions that oversee risks; and the third line to the independent internal audit office that reviews and advises on risks.

5. The model of three lines of assurance firmly differentiates managerial responsibilities from internal auditing. PASB designs, maintains, and monitors systems of risk management and internal control, while OIA provides opinions on the effectiveness and efficiency of those systems. OIA's internal audits and advisory services do not replace the responsibilities of PASB in the discharge of its managerial and operational functions. OIA is obliged by professional auditing standards to refrain from decision-making, in order to safeguard its independence from the activities it reviews. The strict maintenance of independence is therefore essential for OIA to avoid conflicts of interest with its advisory role.

6. Two important institutional arrangements—OIA's direct reporting line to the Director of PASB and its annual report to the Executive Committee—are intended to protect OIA from any potential interference in planning, performing, and reporting on its work. To further ensure the operational independence of OIA, the Auditor General has responsibility for the office's human and financial resources, which are administered in accordance with the rules and regulations of PAHO.

7. In the performance of its duties in 2021, OIA did not encounter any obstacles or interference in the scope of its work, its access to records and information, or the maintenance of its independence.

8. OIA's personnel and other resources were sufficient to implement its 2021 work plan: no aspects of the planned work were curtailed or deferred because of resource constraints. In 2021, the personnel resources of OIA consisted of three professional posts and one general service post. Although the office's staffing resources were adequate to implement the 2021 work plan, the office has been working at the margins of its capacity and is at risk of interruption owing to matters such as the unexpected unavailability (for example, as a result of sickness or family-related emergencies) of team members.

9. In 2021, OIA continued to respond to the challenges of the COVID-19 pandemic with modified working practices. With the moratorium on duty travel and the continuance of emergency teleworking, OIA used information technology tools to conduct desk audits of operations outside of Headquarters. The PASB Management Information System (PMIS) facilitated remote auditing by centralizing the Organization's financial and operational information, and teleconferencing software permitted the face-to-face discussions necessary for internal audits.

## **Development and Implementation of the Internal Audit Work Plan**

10. In consultation with the Director of PASB, the Auditor General establishes a risk-based, annual internal audit work plan. To ensure the periodic coverage of all PAHO/WHO Representative (PWR) Offices, the work plan includes cyclical visits to small offices that typically might not be selected solely on a risk assessment basis. At the time of this writing, the cyclical audit coverage of all PASB locations takes eight years (i.e., each PWR and Pan American Center is audited at least once in an eight-year period). The work plan is intentionally flexible so that it can respond to emerging risks. The Director of PASB approves both the initial internal audit work plan and all amendments to it.

11. OIA establishes precise objectives for individual internal audit assignments through an assessment of the relevant risks. For each assignment, OIA prepares an internal audit report that is addressed to the Director of PASB and copied to appropriate personnel. The report contains findings on risk and internal control issues, along with PASB action plans to address the findings.

12. In 2021, OIA undertook eight assignments (seven audits and one consulting assignment), which covered diverse operations and activities. Four assignments had a thematic focus, and four addressed country-level operations. The Annex to this report lists the assignments undertaken in 2021, with their ratings. For the fourth consecutive year, no individual internal audit was rated “unsatisfactory.” For PWR Office audits, 2021 was the fifth consecutive year without an unsatisfactory rating. The Annex also includes a guide to audit ratings.

## **OIA Coordination with Other Sources of Assurance**

13. In 2021, OIA continued to cooperate with other sources of assurance on risk management and internal controls. OIA coordinated its planning activities with the PAHO external auditor (the National Audit Office of the United Kingdom of Great Britain and Northern Ireland) to avoid duplications and gaps in the overall audit coverage of PASB. OIA also provided copies of all its internal audit reports to the Geneva-based Office of Internal Oversight Services (OIOS) of the World Health Organization (WHO). In 2021, WHO/OIOS continued to rely on the work of OIA and did not perform internal audit assignments in the Region of the Americas.

14. OIA also cooperated with PASB in its second line of assurance (discussed in paragraphs 4 and 5 above) by reviewing the PASB internal control monitoring dashboards and following up on findings of its Enterprise Risk Management process. OIA links all internal audit findings to the Enterprise Risk Management register. This facilitates matching the results of audits to risk-mitigating internal controls.

15. OIA continued in 2021 to receive advice from the PAHO Audit Committee. It also participated in the network of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions in order to assimilate guidance on best practices from other international organizations.

## Principal Internal Audit Findings in 2021

16. Paragraphs 17 to 34 below summarize the main findings from internal audits and the consulting assignment undertaken by OIA in 2021. General observations on the internal control environment are provided in paragraphs 41 to 46.

### *Thematic Assignments*

17. The main objective of the **Internal Audit of Administrative Compliance in PAHO's Emergency Operations (OIA report no. 05/21)** was to assess the extent of PASB compliance with requirements of the "Special Emergency Procedures" in place at the time. The audit focused on procurement transactions and the use of contingent workers between January 2020 and July 2021, covering the COVID-19 pandemic. OIA rated the overall finding of the audit as partially satisfactory, with some improvement needed.

18. OIA raised three findings for management's priority attention: *a)* outdated aspects of policies for emergency operations; *b)* the non-application of standard Enterprise Risk Management (ERM) processes to most emergency projects; and *c)* the absence of background checks in the hiring of consultants.

19. Regarding the first finding, the primary emergency-related policy is contained in Chapter 17, "Health Emergencies," of the PASB policy E-Manual. At the time of the audit, several sections of Chapter 17 were devoid of content, awaiting approval for updates and changes from the PAHO E-Manual Committee. In addition, several hyperlinks from Chapter 17 to other sections of the E-Manual were broken. Regarding the second finding, related to ERM, OIA noted that PASB had not included emergency projects within its standard ERM process. Instead, the Department of Health Emergencies and the Office of the Legal Counsel undertook risk assessments for these projects, on the grounds that their urgent nature required a more rapid turnaround time than could be achieved through standard ERM process. OIA advised PASB that all projects, emergency and non-emergency, should be consolidated within a single ERM process, with a faster, more agile track to address the time constraints typical of emergencies. A consolidation of risk assessment activity would encourage a more consistent approach to risk management across PASB and greater comparability of project risks. On the third finding, related to contingent workers, OIA noted that current policies in PASB did not require background checks for these workers. Given the allegations at WHO, in 2021, of sexual exploitation and abuse committed by contingent workers, OIA advised PASB that background checks for non-staff personnel warranted consideration as a risk-mitigating mechanism. PASB committed to undertaking background checks (including criminal checks) and to participating in the United Nations' "Clear Check" database.

20. Additionally, non-priority findings addressed to management included incomplete supporting documentation for the hiring of consultants and the need for enhanced information to support emergency operations. Regarding the latter finding, PASB agreed on the development of additional tools to facilitate decision-making and reporting. These

measures included the use of “Power Business Intelligence (BI)” software packages and other data visualization methods to complement PMIS information.

21. The main objectives of the **Internal Audit of Staff Health Insurance Claims (OIA report no. 06/21)** were to review the validity, accuracy, and timeliness of Staff Health Insurance (SHI) claims, and the efficiency and effectiveness of their handling, with an emphasis on claims originating from outside the United States of America (USA). OIA rated the overall finding of the audit as partially satisfactory, with some improvement needed. OIA found that the implementation of the SHI Online system—which replaced the manual processing of claims originating from outside the USA—had enhanced efficiency. SHI Online simplified the process, facilitated access to information, and speeded up the processing and reimbursement of claims. In addition, OIA found no exceptions, in terms of potential fraud or significant error, in its test sample of SHI transactions.

22. OIA reported three findings to PASB for priority attention: *a)* a weak second line of assurance for SHI Online transactions; *b)* the use of performance indicators that were insufficient to adequately capture institutional performance; and *c)* slow response times for participants’ queries.

23. Regarding the topic of the second line of assurance, OIA found that the PASB compliance function had not conducted any reviews of SHI Online activity, and the Enterprise Risk Management Register did not include any SHI-specific fraud risks. The WHO SHI compliance function in Geneva, which oversees consolidated SHI transactions from all regions, performs second line functions at a global level. However, OIA advised the implementation of managerial monitoring in the Region of the Americas, closer to the origin of transactions. On the topic of performance measurement, PASB agreed to refine the indicators used to measure the efficiency and effectiveness of SHI transaction handling. On the topic of responsiveness, OIA found that the SHI Online team had been slow to reply to a significant minority of participants’ queries during the current pandemic. From April 2021, all questions and concerns addressed to the PASB SHI team have been channeled through a Service Request System (SRS). Between April and October 2021, 15% of SRS queries were unresolved within 30 days. This statistic should be treated with caution, as other lines of communication such as email and telephone have sometimes operated alongside the SRS system. However, OIA advised PASB to take steps to achieve a greater level of responsiveness, given the often pressing nature of participants’ medical clearance requests.

24. The main objectives of the **Internal Audit of Shared Services in PASB (OIA report no. 04/21)** were to review the effectiveness and efficiency of the PASB Shared Services Center (SSC) pilot project, and explore opportunities for future developments. OIA rated the findings of this audit as partially satisfactory, with major improvement needed.

25. The SSC initiative began as a pilot project in November 2019 to explore ways of optimizing transactions in the Workday system for a small number of PWR Offices. It covered mainly finance and procurement tasks: payment settlement runs, ad hoc bank transactions, the creation of and changes to vendor accounts, and expense report approvals.

The project consolidated these transactions from the four participant PWR Offices at the time of the audit—Argentina, Chile, Haiti, and Suriname—at a shared services center based in the Brazil PWR. OIA’s main findings related to the further institutionalization and formalization of the pilot project and the importance of bringing the initiative within the remit of the Enterprise Risk Management process. These matters are discussed in paragraphs 26 and 27.

26. OIA found that PASB had undertaken the project in a rather informal and ad hoc manner. The Office of the Director of Administration had not selected Brasilia as the shared services center on the basis of a cost-benefit analysis. Rather, the selection had been based on the fact that, following the end of the *Mais Médicos* project, the Brazil PWR happened to have excess personnel capacity. The selection of participating PWR Offices had been driven mainly by the timing of the retirements of country level General Services personnel, rather than by the suitability of the offices for the pilot project. In addition, key internal stakeholders had not been informed of the project. At the time of the audit, OIA found that several Headquarters offices were unaware of the details. These offices included Country and Sub-regional Coordination; Planning, Budget, and Evaluation; Human Resources Management; and the Office of the Legal Counsel. OIA also found that fundamental aspects of the project required clarification. The project’s “business owner” within PASB was unclear, and the thresholds for delegations of authority had not been defined. No performance indicators or cost tracking measures were in place, reducing the scope for assessment of the project’s success. OIA advised PASB to redefine the scope and structure of the project in order to include clear lines of accountability, transparent indicators to measure costs and efficiency, the involvement of key internal stakeholders, a reassessment of the grounds for selecting Brazil as the shared services center, and a clearer rationale for selecting participating PWR Offices.

27. Additionally, OIA found that PASB had not undertaken a formal risk assessment of the Shared Services pilot project, which had remained outside the purview of the PAHO Enterprise Risk Management and Compliance Standing Committee (ERM CSC). Moreover, the initiative was not captured by the activities of the PASB compliance function. In OIA’s view, the significance of the Shared Services initiative and the possibility of its future expansion warrants inclusion in the Enterprise Risk Management process, as well as related second line of assurance activities.

28. The **“Lessons Learned from the PASB’s Teleworking Experience” (OIA report no. 03/21)** was a consulting assignment requested of OIA by the Director of PASB. The objectives of the review were to assess the outcomes, both positive and negative, of the emergency teleworking arrangements during the current pandemic, and to consider future opportunities and risks in this area.

29. OIA found that emergency telework had been effective in protecting the lives of personnel and their families and communities. PASB’s information technology readiness at the onset of the emergency facilitated a smooth transition to remote working. In addition, OIA found an apparent consensus among staff members that telework had not adversely affected their productivity, that the remote supervision of personnel was unhindered while

teleworking, and that teleworking had involved cost savings (for example, reducing travel expenditure). During the mandatory emergency telework, PASB implemented administrative and human resources measures that aimed to provide flexibility in respect of working hours and administrative matters (for example, a simplification of sick leave reporting). PASB also regularly updated personnel with information on the status of the pandemic.

30. Despite the positive aspects noted in the previous paragraph, OIA also found that: *a)* personnel sometimes felt obliged to work or respond to messages outside normal working hours (including lunch breaks), thereby blurring the distinction between work and private life and inducing feelings of “burnout”; *b)* the scheduling of back-to-back meetings were sometimes excessively burdensome; and *c)* PASB might have provided a greater degree of support to those afflicted by isolation and anxiety. To address wellbeing and mental health concerns above and beyond its regular practices, PASB acquired the services of a counselor for individual or group activities, but only at an engagement level of eight hours per month. OIA reported these findings for management’s consideration for future telework agreements.

31. In addition, OIA found that PASB had no formal policy regarding the permissible images used as background in participants’ screens in teleconferencing technology. The widespread use of highly personalized screen shots might have been distracting for some participants in internal meetings. It might have conveyed a frivolous message on occasion, despite the importance of matters under discussion. OIA advised PASB to consider policy guidance on teleconference practices and permissible screen displays to ensure a consistent application of professional standards and appearances.

#### ***Internal Audits of PAHO/WHO Representative Offices and Pan American Centers***

32. In 2021, OIA undertook four audits of PAHO/WHO Representative Offices in Bolivia, Chile, Guyana, and Peru. The principal objective of the audits was to review the effectiveness and efficiency of the internal controls that mitigated administrative and financial risks. OIA rated the findings of the Bolivia, Chile, and Peru PWR Office audits as partially satisfactory, with some improvement needed, and of the Guyana PWR Office audit as partially satisfactory, with major improvement needed. For the fifth consecutive year, OIA did not rate the findings of any PWR Office audit as unsatisfactory—an indication of steadily improving internal controls throughout.

33. Recurring issues at PWR Offices included policy non-compliance in the competitive hiring of consultants; weaknesses in the timely monitoring of Letters of Agreement; incomplete documentation to support local procurement; and the need to update local Country Cooperation Strategies.

34. PASB has taken steps to address the findings arising from OIA 2021 audits and, at the time of writing, many of the findings have already been satisfactorily addressed.

**Follow-up on Internal Audit Findings and Related Action Plans**

35. Three times per year, OIA follows up with PASB on the implementation status of action plans related to internal audit findings. The objective of the follow-up exercises is to support management in improving risk-mitigating internal controls by addressing the gaps or concerns identified in the findings. OIA classifies the significance of its findings in three tiers: priority, standard, and low. The categories are summarized as follows:

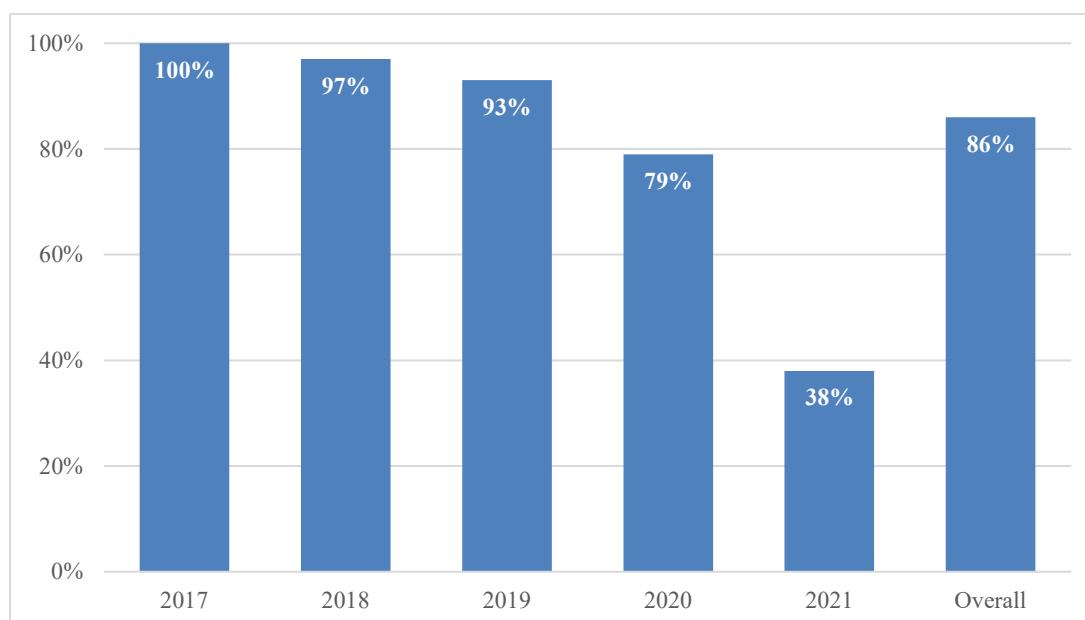
- a) **Priority:** Prompt action is required to ensure that PAHO is not exposed to high risks. A failure to take action could result in major consequences.
- b) **Standard:** Action is required to ensure that PAHO is not exposed to risks that are considered moderate. A failure to take action could contribute to negative consequences for the Organization.
- c) **Low:** Action is desirable and might result in enhanced internal controls or better value for money. Low-priority recommendations are usually communicated verbally between OIA and PASB and are not included in internal audit reports.

36. OIA includes priority and standard findings in the formal follow-up process only after the Director of PASB has accepted the individual internal audit reports that contain the findings. The acceptance of a report by the Director of PASB usually takes place two months following issuance of the report.

37. In 2021, the Director of PASB continued her practice of chairing an annual meeting to discuss with Executive Management, departmental directors, and PWR Office representatives, the status of pending internal audit findings in their areas of work. These meetings indicate a powerful “tone at the top,” conveying the seriousness with which internal audit findings and PASB corrective action plans are considered at the highest levels of the Organization. The meetings have accelerated the implementation of many corrective actions.

38. Figure 1 shows the implementation rates of corrective actions to address internal audit findings for the five-year period ending on 31 December 2021. The relatively low implementation rate for the 2021 recommendations reflects the usual time lag between the issuance of internal audit reports, their acceptance by the Director of PASB two months afterwards, and the subsequent follow-up process. OIA found that the statistics in the table are comparable to those in international organizations of similar size and complexity.



**Figure 1: Corrective Action Status of OIA Findings as of 31 December 2021**

39. In the follow-up process, OIA pays special attention to the longest-pending findings awaiting corrective actions. At 31 December 2021, there were three findings whose corrective actions had been pending for more than two years:

- a) *Information technology security.* PASB has implemented sophisticated security measures for the PASB Management Information System (PMIS). However, there is an internal control gap, and therefore security risks in relation to “shadow” applications and databases outside of PMIS. Examples of standalone information technology systems include SAGE software for the warehouse inventories and operations of the PROMESS (*Programme de Médicaments Essentiels*) program in Haiti, and CLAP/WR’s Perinatal Information System (SIP). SIP is a hospital-based data-gathering tool to improve the quality of care provided to mothers and newborns. OIA draws attention to the importance of comprehensive security arrangements to protect all PASB information systems.
- b) *Rosters of consultants.* PASB has yet to establish rosters of pre-screened and approved consultants. The use of rosters would reduce the risks of selecting consultants without adequate competition and background checks, and would enhance the efficiency of the hiring processes.
- c) *Service contracts for individuals without adequate competition.* At the PWR Office in Brazil, in 2018, OIA found at least 1,250 purchase orders for approximately US\$ 19.7 million,<sup>2</sup> issued as service contracts to individuals for activities related to national voluntary contributions. The hiring of most of these individuals involved little or no competition. The earmarking of individuals in advance of the awarding

<sup>2</sup> Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

of contracts contravenes PAHO policy on competitive procurement. OIA has advised PASB to assess and mitigate the risks of policy non-compliance in this area.

### **Other Areas of Internal Oversight**

40. Financial Regulation 12.1(d) states that the Director of PASB shall “maintain an internal oversight function reporting to the Director.” OIA performs the internal audit and advisory elements of the internal oversight function. The other oversight activities—investigations and evaluations—are performed by other offices in PASB. OIA did not undertake any investigations or evaluations in 2021. Investigative activities were performed by the Investigations Office, and evaluation assignments handled by the Department of Planning, Budget, and Evaluation.

### **Opinion on the Overall Internal Control Environment in PASB**

41. Internal controls are procedures, arrangements, and sometimes physical objects that mitigate, transfer, or eliminate risks and thereby increase the likelihood of achievement of Organizational objectives. Examples of internal controls include physical barriers, which mitigate risks of loss or theft of tangible assets, and the pre-approval of disbursements in line with delegations of authority, which mitigates risks of irregular or improper payments. The rationale for an internal control is the risk to institutional objectives that it purports to mitigate. The overall framework situates internal controls within Organizational operating policies and practices.

42. The Organization maintained an effective and efficient administrative response to the challenges of the COVID-19 pandemic in 2021, with the deployment of information technology tools to facilitate the control of decentralized administrative and operational activities. The Organization also maintained strict budgetary control over general operating costs and the costs of human resources.

43. OIA did not give an unsatisfactory rating to any of the internal audit assignments in 2021, as summarized in the Annex. This is the fourth consecutive year with no unsatisfactory ratings overall and the fifth year with no unsatisfactory ratings for country offices. This suggests a continuing overall adequacy of internal controls throughout PASB.

44. Based on the internal audit activity undertaken in 2021 and on its participation in day-to-day Organizational life (including its role as observers in internal committees and working groups), OIA did not identify any significant weaknesses in internal controls that would seriously compromise the achievement of PAHO’s strategic and operational objectives. OIA’s opinion of the PASB’s overall internal control environment in 2021 is that it continued to provide reasonable assurance of the accuracy and timely recording of transactions, assets, and liabilities, and of the safeguarding of assets.

45. As discussed in paragraphs 4 and 5, the concept of three lines of assurance sets out institutional responsibilities for risk-mitigating internal controls. The first and second lines are provided by management: the first consisting of day-to-day, risk-mitigating internal

controls, and the second consisting of internal control monitoring. The third line, which operates behind management’s activities, is the assurance provided by internal auditors. As in previous years, OIA continues to draw attention to the scope of the second line of assurance for further development in terms of management monitoring and compliance activities. In 2021, PASB formalized a process of assurance mapping. This initiative, alongside the evolving Enterprise Risk Management process, should contribute to articulating more clearly the interconnections between the Organization’s objectives, risks, and risk-mitigating internal controls.

46. The magnitude and duration of emergencies in recent years, including the COVID-19 pandemic, has impacted administrative arrangements in the Organization. “Special Emergency Procedures,” which involve the relaxation of some important internal controls—for example, the thresholds of delegations of authority for expenditure approval—became normalized rather than exceptional in 2020 and 2021. The “Special Emergency Procedures” are designed to encourage administrative agility during times of exceptional challenge. PASB may consider the implications of protracted periods of special procedures on the Organization’s policies. In particular, if the COVID-19 pandemic emergency is prolonged into the future, some revisions of PASB rules may be appropriate.

#### **Action by the Executive Committee**

47. The Executive Committee is invited to take note of this report and provide any comments it deems pertinent.

Annex

## Annex

## INTERNAL AUDIT ASSIGNMENTS, 2021

Thematic Assignments	Reference no.	Overall Rating**
Internal Audit of Administrative Compliance in PAHO's Emergency Operations	05/21	Partially satisfactory, with some improvement needed
Internal Audit of Staff Health Insurance Claims	06/21	Partially satisfactory, with some improvement needed
Internal Audit of Shared Services in PASB	04/21	Partially satisfactory, with major improvement needed
Lessons Learned from the PASB's Teleworking Experience*	03/21	Not applicable*
Country-Specific Assignments	Reference no.	Overall Rating**
Internal Audit of the Office of the PWR Bolivia	02/21	Partially satisfactory, with some improvement needed
Internal Audit of the Office of the PWR Chile	01/21	Partially satisfactory, with some improvement needed
Internal Audit of the Office of the PWR Guyana	07/21	Partially satisfactory, with major improvement needed
Internal Audit of the Office of the PWR Peru	08/21	Partially satisfactory, with some improvement needed

\* Consulting assignment, not an internal audit.

\*\* Rating scale:

**Satisfactory:** Risk management practices and internal controls were adequately established and functioning well. Issues identified by the audit, if any, were unlikely to affect the achievement of the objectives of the audited entity/area.

**Partially satisfactory, with some improvement needed:** Risk management practices and internal controls were generally established and functioning, but **needed** some improvement. Issues identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area.

**Partially satisfactory, with major improvement needed:** Risk management **practices** and internal controls were established and functioning, but needed major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

**Unsatisfactory:** Risk management practices and internal controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area, or of the Organization.